STRATEGIES FOR ASSISTING THE UNEMPLOYED

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Prepared by the Staff of the
Human Resources and Community Development Division
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This analysis was prepared by the staff of the Human Resources and Community Development Division of the Congressional Budget Office, under the supervision of Nancy M. Gordon (226-2669). Questions regarding the analysis may be addressed to Martin Levine (226-2659).

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SUMMARY

With unemployment currently at its highest level since World War II and likely to continue high for some time to come, concern in the Congress has been directed toward creating more jobs. Today's high unemployment is the result of both cyclical and structural causes: the slowdown in economic activity; the persistent job difficulties of disadvantaged low-income groups; and the long-term declines of some manufacturing industries. Because the reasons for the joblessness of different groups of unemployed persons are not the same, options for helping them differ.

Substantial long-term improvement in the overall unemployment picture will not occur without sustained economic growth. A strong economic recovery would directly expand opportunities for persons unemployed because of the recession. Renewed growth is also necessary for the success of programs designed to assist disadvantaged and dislocated workers. But the difficulty of identifying any general economic policy that might lead rapidly to this renewed growth without eventually rekindling inflation, and the perception that some government action is needed quickly, has focused attention on proposals to create jobs directly for a limited number of the unemployed.

FACTORS AFFECTING THE POLICY RESPONSE

The recent rise in unemployment has occurred during an extended period of weakness in the economy that is largely the result of restrictive monetary policy (designed to reduce inflation) interacting with expansionary fiscal policy--that is, government spending far in excess of revenues. Although nominal interest rates have declined recently, real interest rates--after taking account of inflation--remain high. In addition, federal deficits are likely to increase, running in excess of $150 billion in each of the next several years unless further action is taken to increase revenues or hold down spending. These deficits could create enough pressure on credit markets to keep real interest rates relatively high.

Traditional methods of stimulating the economy by increasing federal spending or cutting taxes may have adverse effects at a time when credit is tight. Such measures would require an increase in the deficit, increases in other taxes, or reductions in other federal spending. Further increases in the federal deficit would place additional pressure on interest rates, which might choke off economic recovery unless the monetary authorities took action to offset the rise in interest rates. Increases in the deficit might entail some risk of higher inflation in the future. On the other hand, increases in taxes to finance spending would shift productive activity from the private sector to the public sector, with little effect on overall

employment. Shifting federal spending away from other federal programs might do little to increase overall employment, and would reduce the resources going to areas that the Congress deemed important in the past.

On the other hand, there are reasons why the Congress might wish to enact limited short-run stimulus programs--they could be targeted to particular areas and groups of jobless persons and they could be designed to meet longer-run objectives as well. In the short run, resources could be channeled toward labor-intensive projects in order to spur employment. In the long run, such projects could increase the efficiency of the economy through the skills that workers might acquire and the physical capital, such as improved infrastructure, that could result from them. Moreover, spending could be increased now but financed by tax increases that would take effect in later years. This would effectively move jobs from a future period to the current one--when unemployment is exceptionally high--provided the monetary authorities acted to prevent the rise in interest rates that might result from financing a higher deficit in the near term.

If the Congress chooses to provide some additional assistance to the unemployed, two general approaches are available. First, the Congress could choose to address cyclical unemployment problems by expanding job

opportunities for those unemployed persons who are most severely hurt by current conditions. Second, the Congress could focus on the structural unemployment problems responsible for the long-term joblessness of certain disadvantaged or dislocated workers--persons who are not only unemployed now, but who will remain ill-equipped to find work even after a recovery is well under way.

OPTIONS FOR REDUCING CYCLICAL UNEMPLOYMENT

Several approaches have been proposed for dealing with cyclical unemployment problems (see Summary Table). These approaches--all of which have been used in previous recessions--include:

- Expanded infrastructure construction or repair programs;
- Other public employment programs;
- Countercyclical revenue sharing;
- Countercyclical housing subsidies;
- Wage subsidies for new private-sector employment; and
- Expanded or redirected Unemployment Insurance.

Options for reducing cyclical unemployment may be assessed against several different criteria. The principal considerations include the number of new jobs that would be created, who would be helped by the program, and the value that society would place on the additional goods or services

SUMMARY TABLE. EFFECTS OF SELECTED OPTIONS TO STIMULATE EMPLOYMENT

POLICY OPTION	JOB CREATION [a]	TARGET GROUP	EXTENT OF INCOME SUPPORT	SPEED OF STIMULUS	EFFECT ON LONG-TERM EMPLOYABILITY
Options for Reducing Cyclical Unemployment					
Infrastructure Improvement Program	Less than other public employment due to high capital costs and high wages.	Construction and supplying-industry workers.	High wage rates; duration variable.	Depends on type of project.	Relatively little.
Other Public Employment	Could be large; depends on wage levels and job substitution.	Depends on eligibility criteria and wages; likely groups are low-income and long-term jobless.	Low wage rates; duration variable.	Relatively quick expansion once authorized and administrative structure set up.	Depends on whether jobs provide useful skill training.
Countercyclical Revenue Sharing	Depends on state and local spending decisions.	Depends on state and local decisions; generally untargeted.	Wage rates and duration variable.	Uncertain; past experience somewhat slow; current circumstances may differ.	Relatively little.
Countercyclical Housing Subsidies	Uncertain; depends on net induced construction.	Construction and supplying-industry workers.	High wage rates; relatively short duration.	Probably faster for single-family housing; slower for multifamily structures.	Relatively little.
Countercyclical Wage Subsidies	Uncertain; depends on use by employers in creating new jobs.	Relatively untargeted.	Uncertain.	Could be implemented quickly once authorized.	Depends on whether jobs provide useful skill training.
Extending Unemployment Insurance Benefits	Negligible.	Workers in cyclically sensitive industries.	Benefits vary; duration depends on program.	Could be implemented quickly once authorized.	Might extend length of unemployment.
Options for Reducing Structural Unemployment					
Training for Disadvantaged Persons	Relatively little directly; prepares participants for jobs when economy recovers.	Low-income persons.	Little; depends on stipend.	Already in place; funding could be increased.	Effective for persons with little previous work experience.
Job-Search, Training, and Relocation Assistance for Dislocated Workers	Relatively little directly; prepares participants for jobs when economy recovers.	Experienced workers from declining industries and occupations.	Little.	Requires program start-up; not yet funded.	Uncertain; could be significant.

a. Refers to direct job creation only; does not include possible offsetting effects of any tax increases to finance programs.

produced. The speed with which the jobs could be made available--often a major concern in employment stimulus programs--may be less critical now because high joblessness is expected to continue for some time.

Infrastructure Improvement Programs. Increasing federal funding to enable states and localities to pay for the construction or repair of roads, bridges, sanitation systems, and other public facilities has been suggested as a way of expanding employment opportunities. There is a real and urgent need for these infrastructure projects that, combined with the coincident need for jobs, has made this option attractive. If a public works program was used to address the nation's long-term public capital needs, the funds might be focused on large-scale construction projects that could improve the overall efficiency of the economy, but would take some time to get under way. Funding small-scale repairs could create jobs more rapidly but would generate benefits more local in nature, and might not be as effective a means for meeting long-term national needs. In either case, the additional employment would occur principally in high-wage, high-skill construction jobs, and in the industries that supply construction materials. If these projects were financed by simultaneous tax increases, however, the net gain in employment would be small.

Other Public Employment. Another approach would be to fund temporary jobs in government agencies, nonprofit organizations, or conservation projects. This option could create more direct employment

than public works projects, because public-service employment generally uses less capital and provides participants with lower wages. Since wages are usually lower, this program would be more likely to provide jobs to low-income persons or to the long-term unemployed who have depleted their financial resources. The value of the output generated by such jobs would depend on the types of services funded and participants' skills. Past public employment programs resulted in some substitution of federal for state and local funds—thereby creating fewer net new jobs in the short run. The extent to which this would occur now, given the present financial problems of state and local governments, is not known.

Countercyclical Revenue Sharing. A third approach to increasing employment would be to provide unrestricted cash grants to states and localities, allowing them to determine how the funds would be spent. The amount of additional employment gained would depend on the decisions made by recipient jurisdictions; in the past, state and local governments did not fund particularly labor-intensive activities with stimulus funds.

Countercyclical Housing Subsidies. A quite different approach to expanding employment opportunities would be to generate additional economic activity in the private sector through mortgage-interest subsidies for the construction or purchase of new homes. Such a program could help the depressed housing industry as well as increase employment in related

supplying industries. Recent declines in market mortgage interest rates, however, suggest that some increase in home purchases and construction might occur without federal aid. Under such circumstances, a large proportion of any financing subsidy might merely reduce housing costs for purchasers of new housing without generating additional construction.

Countercyclical Wage Subsidies. Still another approach to expanding job opportunities would be to provide wage subsidies--through tax credits or vouchers--to private-sector employers for hiring additional workers. This option could help to stimulate broad-based employment gains throughout the economy by reducing the cost of labor. On the one hand, such a subsidy could be implemented quickly and made applicable only for hiring during specified time periods. On the other hand, the net effect on job creation is uncertain, because many employers might receive the subsidy for new employment that would have occurred anyway.

Modified Unemployment Insurance. Although Unemployment Insurance (UI) is primarily an income support program, certain changes could be made that would provide additional flexibility in dealing with unemployment. Two options could be considered--providing lump-sum benefit payments to be used for relocation or training, or extending the duration of UI benefits to the long-term unemployed. Any changes that would increase UI outlays, however, would only worsen the already serious

financial position of the UI system, unless additional resources were provided from general revenues or tax increases.

OPTIONS FOR REDUCING STRUCTURAL UNEMPLOYMENT

Even after the economy has recovered from the present recession, two groups will likely continue to experience labor market problems: disadvantaged persons, who include low-income individuals with little recent work experience and those who have worked previously but with chronically low earnings, and dislocated workers, who are persons displaced by long-term changes in the economy. The primary goal of policies to assist the structurally unemployed is to increase their long-term employability, rather than just to expand immediate job opportunities. None of these policies can succeed, however, without sustained real growth in the economy.

Authorizing legislation already exists that would help structurally unemployed persons. The Job Training Partnership Act (JTPA), which was enacted in October 1982, provides federally financed but state- and locally-administered training, job-search assistance, and related activities for both disadvantaged and dislocated workers. But, 1983 is a transition period from the current Comprehensive Employment and Training Act (CETA) to the new JTPA, and while assistance for disadvantaged persons is currently funded, aid for dislocated workers is not. In addition to the JTPA, the

federal government provides wage subsidies to certain disadvantaged persons (mainly youth) through the Targeted Jobs Tax Credit (TJTC).

Assisting Disadvantaged Persons

Two approaches are available for aiding disadvantaged persons--training and job-search assistance; and targeted wage subsidies.

Training and Job-Search Assistance. Different approaches might be used to aid different groups of disadvantaged persons. For adults with little previous work experience, training and job-search assistance such as that provided under CETA has been shown to be successful in the past, primarily by increasing the number of hours worked by participants. For adults with more work experience but chronically low earnings, more extensive--and, therefore, more expensive--training would probably be required to increase future wages. For disadvantaged youth, whose problems are often a lack of any work experience and, for many, of marketable skills as well, some combination of remedial education, work training, and job-search assistance might be required. Most of these services are currently provided by CETA and could be provided under the new JTPA.

Targeted Wage Subsidies. Another approach to aiding disadvantaged workers is to provide a wage subsidy for employers who hire such persons--increasing the demand for selected workers by reducing their costs

to employers, rather than by increasing their job skills or facilitating the job-search process. Because wage subsidies--such as that provided through the TJTC--do not improve workers' skills, however, their success depends on the workers being at least minimally attractive to employers. Experience with the TJTC indicates that such a credit induces few employers to hire the disadvantaged.

Assisting Dislocated Workers

Several different services could be provided to aid dislocated workers in obtaining new jobs. Job-search assistance--including labor market information, job-search instruction, and counseling--might help some of these workers accept their new circumstances and find new employment. For some workers, training could help them acquire new skills that are in demand. Finally, relocation assistance--in the form of subsidized expenses and inter-area labor market information--might encourage workers to relocate to geographical areas in which there are job openings. These services are authorized under the JTPA, although no funds have yet been appropriated.

I. INTRODUCTION

The rise in unemployment over the last year to a 40-year high has prompted a number of proposals for dealing with the current increase in joblessness as well as with the structural causes of longer-term unemployment.

This analysis is intended to aid the Congress in assessing approaches to both kinds of unemployment problems.1/ Section II examines current unemployment and the outlook for the near future. Section III describes the economic context in which any employment policy would operate, and outlines broad policy choices. Section IV analyzes several approaches to

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1. This study was prepared quickly in order to be available during the post-election session of the 97th Congress. Given more time--and as the details of specific proposals become known--more complete analyses of particular options can be provided. Persons interested in specific issues and policy options may also refer to other Congressional Budget Office reports. Issues involved in the use of federal grants to counter economic downturns are discussed in **The Countercyclical Uses of Federal Grant Programs** (November 1978). Options for addressing the infrastructure needs of the highway system are included in **The Interstate Highway System: Issues and Options** (June 1982) and **Financial Options for the Highway Trust Fund** (December 1982). The experience with past public service employment programs is detailed in **Effects of Eliminating Public Service Employment** (June 1981). Options for dealing with the employment problems of youth--a group that experiences persistently high joblessness--are discussed in **Improving Youth Employment Prospects: Issues and Options** (February 1982). Recent experience

cyclical unemployment--that is, unemployment caused principally by the current recession. The final section considers options for dealing with structural unemployment--joblessness that would be expected to persist even in a buoyant economy, either because of a long-term decline in the demand for labor in certain sectors of the economy, or because certain workers lack the basic skills necessary for employment.

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1. (Continued)
with federal training programs designed to aid disadvantaged adults is evaluated in a joint CBO-National Commission for Employment Policy study, **CETA Training Programs--Do They Work for Adults?** (July 1982). The often unique problems of workers displaced from long-time employment with little prospect of being rehired are examined in **Dislocated Workers: Issues and Federal Options** (July 1982). The work-related problems of older persons as they near retirement are analyzed in **Work and Retirement: Options for Continued Employment of Older Workers** (July 1982).

II. THE UNEMPLOYMENT SITUATION

In recent months unemployment has reached its highest point since World War II, and is expected to remain high for several years. This section describes the current situation and the outlook for the near future.

THE CURRENT SITUATION

Unemployment stood at 10.8 percent in November 1982--up more than three and one-half percentage points since the most recent low point in July 1981. Almost 12 million persons were searching for work in November, and more than 1.5 million others who wished to work were not counted as unemployed because they said they had given up looking for jobs. In addition, over 2 million persons who usually work full time were on part-time schedules for economic reasons. Of those unemployed in November, almost 40 percent had been without work for 15 or more weeks, and over 60 percent were unemployed because they had lost their last job, as distinct from having quit or having newly joined or rejoined the work force.

The recent upsurge in unemployment must be seen in the context of longer-term increases in both employment and unemployment. Employ-

ment has grown considerably in recent decades, from 66 million workers in 1960 to nearly 100 million today. This is not only the result of an increase in population. The share of the population in the labor force has also increased somewhat during that time--a result of greater participation by women in the work force, only partially offset by decreased participation by men. Unemployment has also risen over this period, from an average of 4.6 percent in the 1950s and 1960s to 6.2 percent in the 1970s. Thus far in the 1980s--a period dominated by recession--unemployment has averaged 8.1 percent.

Unemployment has hit some groups in the work force especially hard (see Table 1). In November, joblessness was 20.2 percent among blacks, 15.7 percent among Hispanics, and 24.2 percent among teenagers. Over half of black teenagers in the labor market were without jobs. Unemployment has also increased significantly for adult men--from 5.8 percent in July 1981 to 10.1 percent in November, surpassing the 9.1 percent rate for adult women. The jobless rate for blue-collar workers exceeded that for white-collar workers by over 10 percentage points--16.5 percent compared to 5.6 percent--due in part to differences in the unemployment rates in the industries in which the two groups usually work.

TABLE 1. SELECTED UNEMPLOYMENT RATES BY DEMOGRAPHIC AND OCCUPATIONAL GROUPS (Seasonally adjusted, in percent)

Group	July 1981a/	November 1982
All Workers	7.2	10.8
Adult Men	5.8	10.1
Adult Women	6.7	9.1
Teenagers	18.7	24.2
White	6.3	9.7
Black	13.8	20.2
White Collar Workers	4.0	5.6
Professional and Technical	2.8	3.8
Managers and Administrators	2.6	3.9
Sales Workers	4.9	6.3
Clerical Workers	5.7	7.9
Blue Collar Workers	9.5	16.5
Craft and Kindred Workers	6.9	12.2
Operatives, except Transport	11.1	21.2
Transport Equipment Operatives	7.3	14.1
Nonfarm Laborers	14.4	19.4
Service Workers	8.0	11.2
Farm Workers	4.8	7.7

SOURCE: Department of Labor, Bureau of Labor Statistics.

a. Month corresponding to the most recent low period of unemployment.

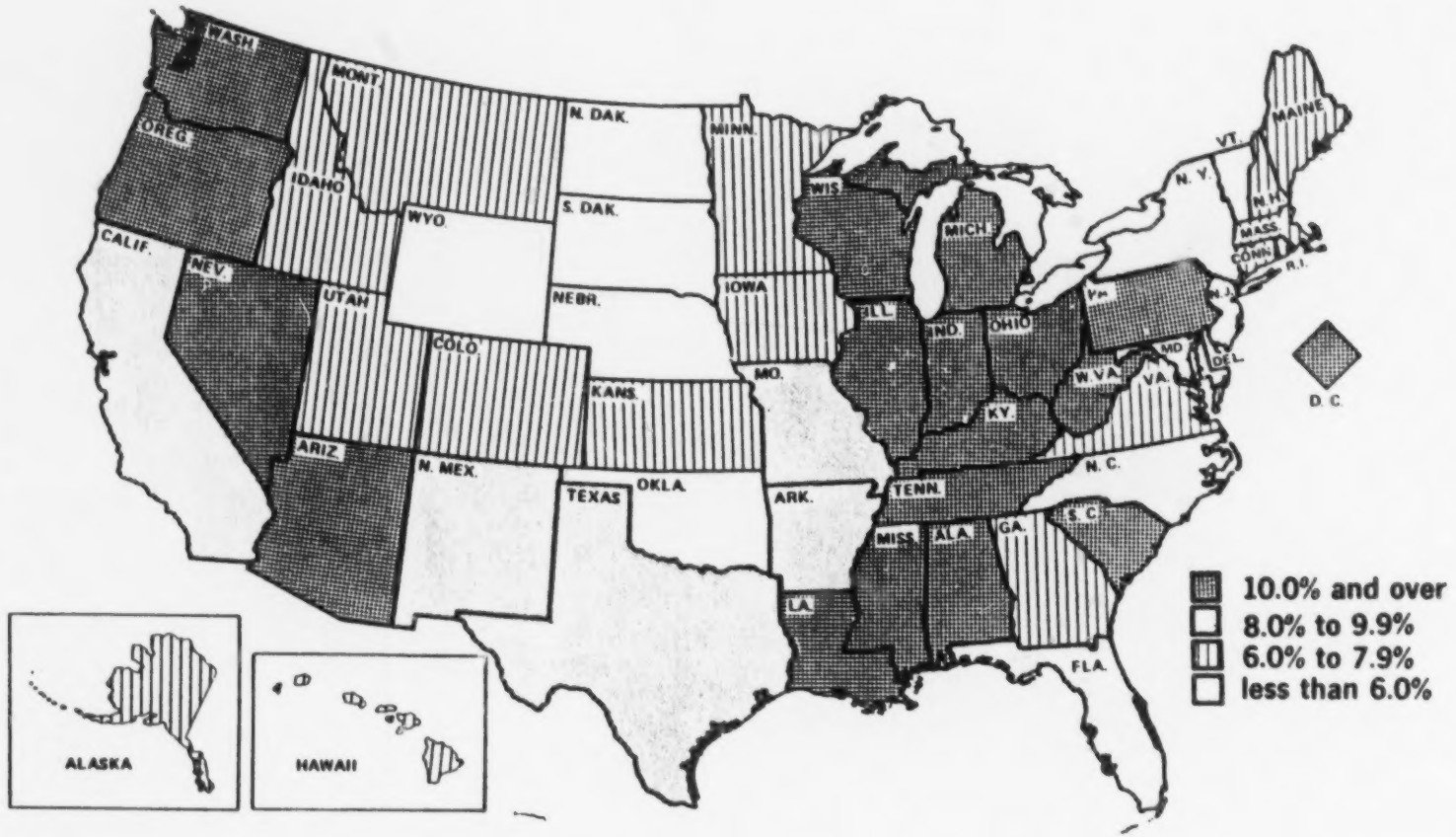
Unemployment has been concentrated in the goods-producing industries of the economy, with 21.9 percent of construction workers and 14.8 percent of manufacturing workers without jobs in November. Unemployment in the service sectors was generally less than 10 percent, and has increased less during the recession than in the more sensitive goods-producing industries. Since July 1981, employment has decreased by over 2.6 million persons in the goods-producing industries, but has decreased by less than 100,000 in the service industries.

Regional unemployment patterns are strongly related to the types of workers and industries concentrated in particular areas (see Figure 1). During September of this year, Michigan--with an economy heavily dependent on the automobile industry--had the highest state jobless rate, 14.5 percent. In the same month, Alabama, Illinois, Mississippi, Ohio, and West Virginia each had over 12 percent unemployment, while a number of states in the Far West also had rates in excess of 10 percent. The lowest state unemployment rates were in the Northern Plains and Rocky Mountain states and in New England--with North and South Dakota, Nebraska, Oklahoma, Vermont, and Wyoming all below 6 percent.

THE OUTLOOK

The employment outlook for the near future is not promising. Even if recovery begins early in 1983, joblessness may still rise somewhat from

FIGURE I. UNEMPLOYMENT RATES BY STATE, SEPTEMBER 1982



Source: U.S. Department of Labor, Bureau of Labor Statistics, November 1982

current levels. Furthermore, signs do not point to a rapid rebound in employment when recovery does take hold. A real economic growth rate of 3 to 4 percent per year, for example, implies a decline in the unemployment rate of only about 1 percentage point per year.

Structural unemployment poses additional problems. Persons with few or no marketable job skills, and employees displaced from declining industries with little prospect of being rehired by their former employers will continue to have employment problems even in a growing economy. For chronically disadvantaged persons, intensive training may be required to improve their long-term prospects. For persons displaced from declining industries--so called dislocated workers--job search assistance, aid in relocating to areas where their present skills may be in demand, or retraining may be necessary.

III. THE ECONOMIC CONTEXT OF EMPLOYMENT POLICY

The prospect of high jobless rates in the near term, and the realization that employment problems will remain for some persons even after recovery is well under way, have prompted a number of recent proposals for creating jobs and for addressing longer-term employment difficulties. This section examines the economic context within which employment policy options must be considered, and presents some of the broad choices that would need to be made.

THE ECONOMIC AND POLICY CONTEXT

The most recent upswing in unemployment has occurred during an extended period of weakness in the economy that is largely the result of a restrictive monetary policy (designed to reduce inflation) interacting with an expansionary fiscal policy--that is, one in which government spending is far in excess of revenues. Although nominal interest rates have fallen recently, real interest rates--after taking into account inflation--remain high. What is more, deficits are likely to rise to a level in excess of $150 billion during each of the next several years, unless further action is taken to increase revenues or constrain spending.

Substantial improvement in the overall unemployment picture awaits a return to sustained economic growth. However, the unique combination of monetary restraint and high deficits now in place severely limits traditional fiscal policy responses. Traditionally, the fiscal policy response to recessions has been higher spending, tax cuts, or both. Since the present fiscal policy is already expansive, giving it freer rein might risk driving up long-term interest rates --which might in turn largely offset the additional fiscal stimulus.

It is within this context that proposals have been made to address directly the problems of some limited number of the unemployed. While such proposals could improve circumstances for some unemployed persons, the impact on overall economic conditions would likely be limited. For one thing, short-term employment stimulus programs of any feasible size could directly aid only a small proportion of the unemployed and could only marginally affect the state of the economy at large. Also, for such programs to produce a net stimulative effect would require that they represent a net expansion in economic activity. Yet there are only two ways of financing these programs--increased tax revenues or increased federal borrowing--either of which might act to offset the desired expansion.

Programs that would simultaneously raise taxes and spend the proceeds would, as a first approximation, result in little or no net job creation. This is because the increased tax burden would, for the most part, reduce household and business spending. Thus, the job losses from higher taxes would eventually roughly offset the jobs created by the enlarged public spending. Proposals of this nature might therefore be evaluated on other grounds. One major criterion might be whether the new output--better highways, expanded public services, and so on--would be worth the costs of the program. In addition, a tax-financed program could change the distribution of unemployment and employment among industries, so the desirability of such shifts might also be a consideration. Finally, depending on the timing of the tax and spending increases, more jobs now might effectively be traded for fewer jobs in the future--when the overall level of unemployment is expected to be lower. This outcome might be achieved, for example, if spending were increased quickly but the tax increases were postponed until future years, providing the monetary authorities acted to prevent a rise in interest rates in the near term.

Increased spending without concurrent increased taxes, by contrast, would encounter certain risks. The direct impact of such programs would be to increase employment, but the concomitant increase in the federal budget deficit might limit the net increase in jobs. With unchanged monetary policy, interest rates might rise, thereby offsetting part or all of the

stimulus. Loosening monetary policy to avoid an increase in interest rates in the short run might lead to higher inflation and a rise in long-term interest rates, thereby attenuating the jobs-creation results. On the other hand, a plausible shift toward expectations of better future markets for goods and services as a result of the stimulus program could actually strengthen the job-creation effects.

The Congress has to decide whether, on balance, the current employment outlook and the recently improved state of inflation may warrant taking the risks associated with short-term stimulus options. These risks could be minimized by designing stimulus programs that need not have substantial impacts on budget deficits in the longer term. For example, programs in which spending could be ended after the cyclical need had passed could be emphasized, or offsetting tax increases could be scheduled to take effect in future years.

BROAD POLICY CHOICES

If the Congress chooses to provide some additional assistance to the unemployed, it will first have to determine what broad policy objective is to be pursued. Two general approaches are available. First, the Congress could choose to address cyclical unemployment problems as a way of expanding job opportunities immediately for those unemployed persons who

are most severely hurt by current conditions. Alternatively, the Congress could focus on the structural employment problems that will leave large numbers of persons ill-equipped to find work even after a recovery is under way.

Quite different options might be appropriate to these different objectives. If the primary objective is to provide immediate assistance to those persons who have been most severely hurt by the present economic downturn, the Congress might be most concerned about quickly providing targeted job opportunities or additional income support. If instead the principal focus is on longer-term employment problems, the Congress might wish to concentrate on training or job-search assistance for disadvantaged or dislocated workers. Both sets of objectives could, of course, be pursued simultaneously through some combination of programs.

Section IV of this analysis examines specific options for addressing cyclical employment problems. Section V focuses on ways to deal with structural unemployment.

IV. OPTIONS FOR ADDRESSING CYCLICAL EMPLOYMENT PROBLEMS

Several approaches have been proposed for alleviating cyclical unemployment problems. These approaches--all of which have been employed in prior recessions--include:

- Expanded infrastructure construction or repair programs;
- Other public employment programs;
- Countercyclical revenue sharing;
- Countercyclical housing subsidies;
- Wage subsidies for new private-sector employees; and
- Expanded or redirected Unemployment Insurance.

These approaches differ appreciably. Expanded infrastructure programs would provide a boost to construction employment and to employment in the industries that supply materials used in the physical improvements. Grants to finance other public services, by contrast, would probably be directed more toward providing immediate income support to a larger number of lower-skilled workers. Countercyclical revenue sharing would shift to states and localities the full responsibility for determining how the additional funds were used. Countercyclical housing subsidies would be aimed at spurring additional activity in one specific sector of the private economy. Wage subsidies would be intended to generate additional

hiring throughout the private sector. Finally, the Unemployment Insurance program could be used to provide additional income support for unemployed workers with prior labor market experience, or to hasten their reemployment.

Several criteria might be used in assessing countercyclical employment expansion options. The principal concern might be how many new jobs would be created in the short run. Job creation under any employment stimulus program has several aspects, however. The first is the number of jobs created directly in publicly financed projects and in the industries that supply materials for those projects--so-called direct job creation. The second aspect of job creation is employment that occurs as a result of the direct job creation--primarily as those hired directly spend their additional income. This is often referred to as indirect job creation. The sum of both direct and indirect job creation is often referred to as the "gross" number of jobs created. On the other hand, for any job creation program, there will also be several offsetting factors. These factors include the number of persons who would have been hired even in the absence of federal aid and the possible reductions in private-sector employment that would result from any simultaneous tax increase. The number of jobs created, or lost, after all such offsetting factors are taken into account is often referred to as the "net" number of jobs created. Each of these elements in turn--gross direct

employment, gross indirect employment, and net job creation--is increasingly difficult to measure and predict.

Other possible issues in assessing countercyclical employment options include whether the new jobs would be targeted on the persons in greatest need, and how much income support would be provided to those who would benefit. Any countercyclical stimulus program might also be judged on how valued the additional goods and services generated in the short-run would be, and how much the program would contribute to long-term productivity gains. A final criterion might be how rapidly the assistance would be made available, although this might be of less concern under present circumstances, in light of the expectation that joblessness will remain high for some time to come.

The remainder of this section analyzes the six countercyclical strategies listed at the outset. For each approach, prior federal experience is examined,1/ implications are drawn from that experience, and specific options are discussed.

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1. To the extent that they are available, the results of program evaluations are presented. Considerable caution should be exercised in interpreting the results of those evaluations, however. For one thing, the different economic circumstances in which prior countercyclical programs operated affect their impacts. Also, evaluations of prior programs often use quite different methodologies, which can make the results noncomparable--particularly regarding the crucial question of net job creation.

INFRASTRUCTURE IMPROVEMENT PROGRAMS

Increasing federal funding to states and localities to finance improvements to the nation's public infrastructure--roads, bridges, sanitation systems, and other public facilities--could expand employment opportunities in construction and in certain industries that supply building materials and, at the same time, improve the efficiency of the economy in future years.

Past Experience

The federal government has increased spending for infrastructure improvements several times during recent decades as a means of expanding short-term employment opportunities. The most recent such program was the Local Public Works (LPW) program, which awarded $6 billion to states and localities between July 1976 and September 1977 to fund 10,600 projects, principally in areas of high unemployment.2/ The LPW program represented a joint effort of the federal government and state and local governments, with the federal government--through the Economic Development Administration (EDA) in the Department of Commerce--funding projects from a wide range of proposals submitted by state and local governments.

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2. This summary of the Local Public Works program is drawn from: U.S. Department of Commerce, Economic Development Administration, **Local Public Works Program: Final Report**, December 1980.

The LPW program generally funded small-scale projects, costing an average of $570,000, with none larger than $5 million. About 55 percent of LPW funds were used to finance the construction of new facilities; another 12 percent were used for additions to existing facilities; and the remaining funds were used primarily for rehabilitation and repairs. Sanitation projects--water, sewer, and utility systems--accounted for about a fifth of total funding. Streets and bridges, schools, and municipal buildings each accounted for between 10 and 20 percent of total funding. Virtually all of these projects were estimated to have been net increases in construction at the time; that is, they were projects that state and local governments would have funded only at a later date, if at all.

About 22 percent of LPW funds were spent directly on labor, employing approximately 1.1 million people at one time or another, mostly in short-duration construction jobs averaging less than one month. Measured by person-years of employment, LPW directly created 93,000 jobs. Nearly two-thirds of those hired on LPW projects were skilled workers--virtually all members of construction trades. In addition, 28 percent of the workers were classed as unskilled and 9 percent as administrative personnel. About 13 percent of those hired on LPW projects were unemployed at the time they were hired. In addition, some share of those who were previously employed would likely have become unemployed had LPW not provided them jobs, though it is not possible to estimate how many.

The remaining four-fifths of LPW funds, which were used to purchase materials, created an estimated 66,000 person-years of employment in such supplying industries as concrete and steel manufacturing. Thus, the LPW program is estimated to have created about 159,000 person-years of employment directly at a cost of about $38,000 per job-year in 1978 dollars.3/

Most of the effects of LPW, however, were felt during the economy's recovery. The peak of LPW spending came in 1978--nearly four years after the trough of the recession and two years after passage of the initial LPW authorizing legislation (see Figure 2). By that time, unemployment was back at approximately its pre-recession low, and the additional public works spending is regarded as having been procyclical--probably contributing to inflationary pressures of the late 1970s.4/ The slowness of LPW spending was due in part to the timing of Congressional action in authorizing the program, and in part to the lags inherent in planning and carrying out public works projects.

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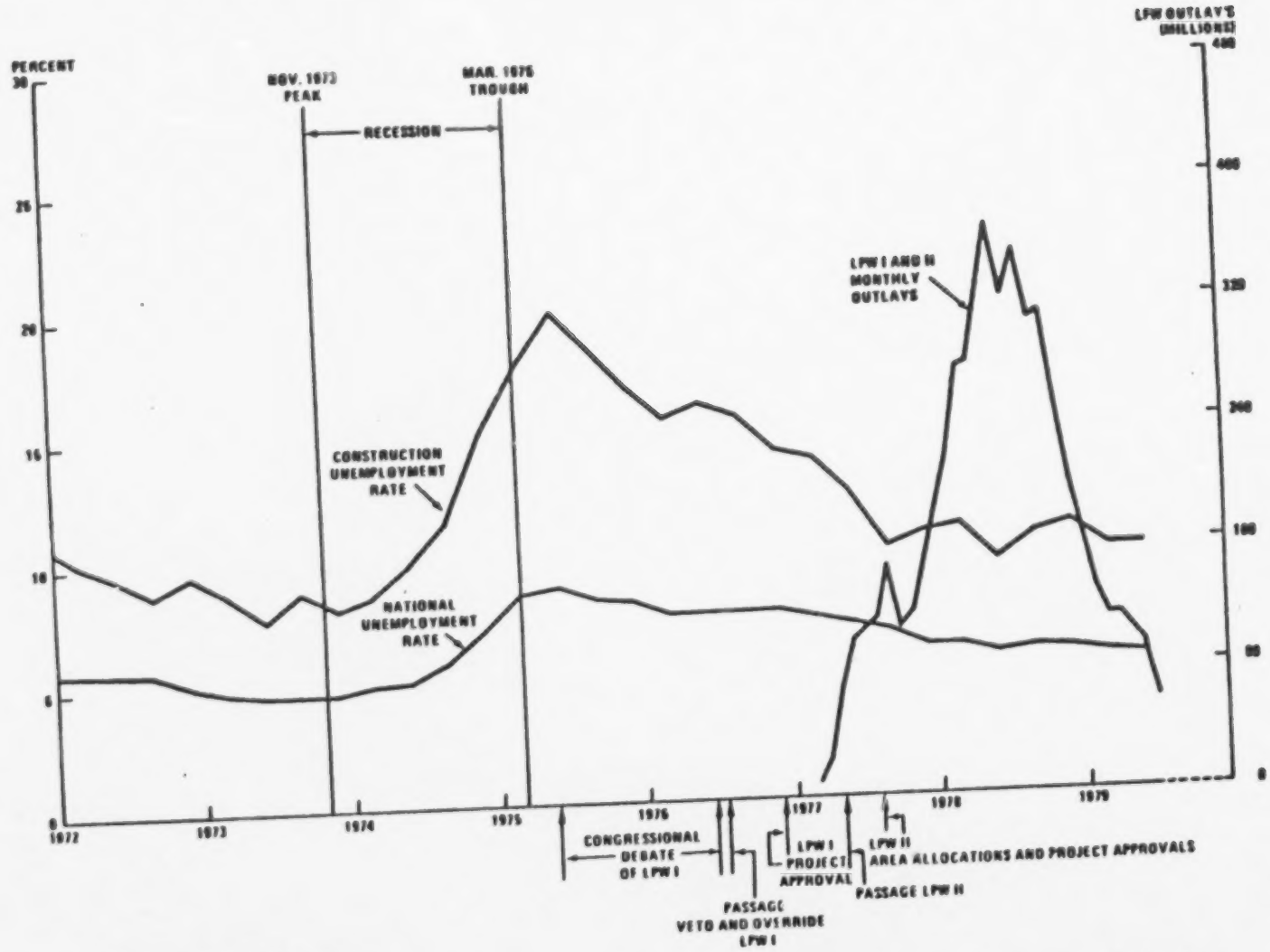
3. These figures reflect only those persons employed on-site on LPW projects, administrative personnel, and persons employed in producing materials used on LPW projects. The number of jobs created and the cost per job do not reflect indirect employment that occurs as those employed directly and in supplying industries spent their wages on goods and services.

4. Office of Management and Budget, **Public Works as a Countercyclical Assistance**, November 1979, p. 1.

FIGURE 2. DISTRIBUTION OF LOCAL PUBLIC WORKS OUTLAYS IN RELATIONSHIP TO NATIONAL UNEMPLOYMENT RATES



Seasonally adjusted, quarterly unemployment rates

SOURCE: Office of Management and Budget, Public Works as Countercyclical Assistance, November 1979, p. 3.

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Policy Implications and Options

In general, public works programs create employment principally for relatively high-wage and high-skill construction workers and for workers in supplying industries. Such programs also generally require more time to generate these effects than do other types of countercyclical strategies. Depending on the program structure and financing mechanism, however, public works programs might be a vehicle for assisting industries significantly hurt by the current recession and for improving overall efficiency in the economy by providing needed infrastructure repairs.

At least two major approaches exist for public works spending increases. The federal government could serve primarily as a financing source--as it did with the LPW program--allowing state and local governments to submit funding proposals for a wide range of projects to a designated federal agency, and then funding selected projects. Alternatively, the federal government could increase funding for existing national programs--such as the activities of the Federal Highway Administration or the Environmental Protection Agency--that would meet various national infrastructure needs.

Funding a State- and Local-Designed Program. If the federal government chose to fund an LPW-like public works program, a number of

design issues would have to be addressed. First, a federal agency would have to be designated to administer it. The EDA would be one possibility, as would the Department of Housing and Urban Development, which reviews and funds capital projects through the Urban Development Action Grant program, and the Farmers Home Administration in the Department of Agriculture, which provides infrastructure funding through its rural development programs. The choice of agency might affect the speed with which a program could be implemented, although if high unemployment persists for some time, this might be of less concern.

A second issue would be which governments to assist. One option would be to limit aid to localities experiencing relatively high levels of unemployment. Alternatively, given the widespread nature of cyclical unemployment, all states and general-purpose local governments could be eligible, with such criteria as the current unemployment rate and fiscal distress of jurisdictions considered in selecting the applications to be funded.

Finally, a set of eligible activities would have to be determined. A wide range of new construction and repair activities could be permitted, as was the case in the LPW program, with priority given to projects that had high labor needs and that produced large numbers of jobs. Alternatively,

projects could be limited to rehabilitation and repair activities that require relatively large numbers of low-skilled workers, such as painting public buildings or repairing local roads.

Increasing Funding for Federal Infrastructure Programs. A second major option would be to increase funding for the major federal programs that address infrastructure needs. These programs include the activities of the Federal Highway Administration--already slated by the House of Representatives for major increases; waterway and land-based projects undertaken by the Army Corps of Engineers; waste-water treatment plants and other facilities provided by the Environmental Protection Agency; and airport and air traffic control facilities of the Federal Aviation Administration, among others.

In general, increases in funding for federal infrastructure programs would not necessarily lead to rapid employment gains, nor to large numbers of jobs, although such funding increases could lead to long-term increases in the efficiency of the economy. Federal infrastructure programs generally require fairly long periods in which to design and implement projects. Directing additional funding to projects already planned, however, could decrease these lags, depending on the number of such projects available and their actual state of readiness. Further, infrastructure programs generally employ relatively high-wage workers in construction and in supplying

industries, suggesting that infrastructure programs would create fewer jobs for a given federal expenditure than programs that fund activities performed by lower-wage workers. On the other hand, the nation's infrastructure is in need of significant funding increases, particularly for repair. Additional funding could create long-term gains in productivity by enabling the overall economy to function more efficiently.

If the Congress chose to undertake major improvements to the nation's infrastructure, serious attention would have to be paid to the manner in which these increases were financed. Historically, many of these capital facilities have been financed by the direct beneficiaries through user fees, such as motor fuels taxes--an approach that helps assure that useful projects are undertaken. Raising fees would, however, merely transfer resources--and jobs--from private-sector activity to public, thus creating few, if any, jobs on net. In fact, the effects on employment would be negative, if taxes were raised immediately and the increased federal outlays did not occur until sometime later--although in the short-run the increased revenues would reduce the federal budget deficit. These negative effects could be reduced by phasing in tax increases to correspond to the expected federal expenditure increases. And employment could be raised in the short run, by increasing federal spending immediately and raising user fees in the future to finance the increased activity, providing that monetary

authorities acted to avoid increases in interest rates that could result from having to finance a higher deficit in the short run.

OTHER PUBLIC EMPLOYMENT PROGRAMS

Another approach to expanding employment opportunities would be to finance jobs in federal, state, local, or nonprofit agencies providing other public services. Under this approach, a greater share of the federal expenditure would go directly to wages than is the case with public works projects, and the additional short-term employment could probably be generated more quickly. On the other hand, the jobs created would generally be lower paying, and in past public employment programs some questions have been raised regarding the value of the additional services provided.

Past Experience

The federal government has used public service employment (PSE) programs twice in the recent past to address the problem of high unemployment—first through the Emergency Jobs and Unemployment Assistance Act of 1974 and later through the Economic Stimulus Appropriation Act of 1977. Both programs were part of the Comprehensive Employment and Training Act (CETA). At the peak in 1978, the federal government provided $5.8 billion to states, localities, and nonprofit organizations to finance

employment in such areas as law enforcement, education, transportation, and parks and recreation. Most of the PSE jobs were of short duration, however, lasting an average of about seven months. After their increase in the late 1970s, the PSE programs were cut back, but were retained as part of CETA. These programs were eliminated in the 1981 Reconciliation Act.

The types of people employed in PSE jobs, the wage levels paid, and thus the average federal cost per worker have all varied over time. The 1974 program provided jobs to persons who had been unemployed at least 30 days and to low-income persons who were working. In 1976, however, the program was more heavily targeted on low-income persons, in response to perceptions that too few jobs were going to those most in need and that too few of the PSE jobs represented net new employment. These restrictions were later relaxed to accommodate the rapid 1977-1978 program expansion. During the expansion, the number of jobs increased rapidly--an average monthly expansion of 40,000 jobs--and criticisms of fraud, abuse, avoidance of more disadvantaged persons, and job substitution arose again. In response, the 1978 CETA reauthorization increased the focus on the disadvantaged and reduced the maximum allowable wage level. In fiscal year 1981, each person-year of employment funded through PSE programs cost approximately $11,000 in federal outlays.

Evaluations of CETA PSE programs have generally concluded that many persons hired with federal funds would have been hired in any event—that is, the federal funds substituted for state and local funds that would otherwise have been spent. However, the extent of such fiscal substitution under PSE programs—or under any state and local grant program, for that matter—is difficult to assess. To the extent that substitution does occur, it reduces the short-term direct public employment effect of a program. In the long run, however, if states and localities substitute federal funds for their own resources, it permits them to increase other programs or to reduce their own revenue-raising efforts, both of which generate additional economic activity, and thus employment.5/

The federal government also funds separate public employment programs designed only for youth, but these programs have never been used explicitly as countercyclical devices. The largest of these is the Summer Youth Employment Program (SYEP), currently funded under CETA and to be continued under its successor program. SYEP has provided up to 800,000 jobs annually for economically disadvantaged youth in nine-week summer

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5. The weight of the evidence suggests that, in PSE programs before the 1978 CETA reauthorization, between 50 and 60 percent of the federal funds substituted for state and local spending that would have occurred in any event. See U.S. Department of Labor, **The Implications for Fiscal Substitution and Occupational Displacement Under an Expanded CETA Title VI** (March 1979). Substitution probably decreased as program restrictions were strengthened in 1978.

work projects, at a cost of about $1,000 per job in 1982 dollars. Two smaller programs—which no longer exist—that provided public employment for youth are the Young Adult Conservation Corps (YACC), a year-round program; and the Youth Conservation Corps (YCC), a summer program. Neither of these programs was limited to the economically disadvantaged, and both typically involved moving youth from their homes to residential centers near conservation work. These two programs together provided more than 50,000 jobs in 1981, the last year in which they were funded. The cost per position in the full-year YACC program was $12,600 in 1981.

Youth programs provide employment opportunities that would not otherwise be available. By one estimate, at least two-thirds of the jobs represent additional job demand for disadvantaged youth, although the proportion of net job creation may be lower for other youth. There is no evidence that these programs contribute to the long-term employability of youth, however.

Policy Implications and Options

A new public employment program could increase short-term job opportunities in nonprofit organizations and government agencies, although the extent of net job creation in the short run is uncertain. The sorts of persons benefiting directly from any such program, the number of persons

who could be hired, and the speed with which additional jobs would be made available would depend on the kinds of persons eligible for PSE jobs, the wage levels paid, and the sorts of services provided.

Restricting jobs to low-income persons or to persons who have been unemployed for a long period of time would focus aid on those with the greatest immediate need for income and on those hit hardest by the current recession. Such an approach could also mean that a greater proportion of the jobs would go to chronically disadvantaged persons, rather than to the cyclically unemployed. As the recession continues, however, and the cyclically unemployed deplete their financial resources, they might be more interested in short-term, low-wage employment. Targeting employment on low-income persons and on the long-term unemployed might slow the pace at which the positions could be filled, however, and would mean that a greater proportion of the additional services generated would have to be those that could be provided by relatively low-skilled workers.

Permissible wage levels under any public service employment program would also affect program outcomes. Placing low maximum wage limits on PSE jobs would permit a greater number of persons to be helped for the same federal expenditure, but would limit the kind of services that could be provided and the types of persons who would be interested in obtaining such jobs.

Finally, the services to be provided could be restricted directly. Restricting the kind of services would allow the federal government to expand the production of particularly valued public goods. On the other hand, narrowly restricting the range of eligible services might slow program implementation and--depending on the kinds of services prescribed--could make the jobs inaccessible to the lowest-skilled among the unemployed.

After a public service employment program was authorized and the administrative structure established, the jobs could probably be filled relatively quickly. Presently, however, an administrative structure does not exist, since the primary PSE programs were eliminated in the 1981 Reconciliation Act.

COUNTERCYCLICAL REVENUE SHARING

Another approach to increasing employment would be to provide unrestricted cash grants to states and localities. State and local governments would then be expected to use their countercyclical revenue sharing funds to increase expenditures or offset tax increases, thereby generating additional economic activity and employment.

Past Experience

Countercyclical revenue sharing has been provided previously through the Antirecession Fiscal Assistance (ARFA) program, which distributed over $3 billion between July 1976 and September 1978 to state and local governments located in areas of high unemployment.6/ During each quarter in which the national unemployment rate was 6.0 percent or higher, the ARFA program provided grants to states, counties, cities, and townships with unemployment above 4.5 percent.

In the short run, funds distributed under the ARFA program increased recipients' financial balances, with over half of the funds distributed in the first year and one-half remaining in balances at the end of that period. The full stimulus effects of ARFA on the economy were thus not felt until 1978, by which time economic recovery was well under way. Estimates are that by the end of 1978, 70 percent of the funds had been used to increase expenditures, 20 percent had been used to offset tax increases that would otherwise have taken place or to lower taxes, and the remaining 10 percent remained in balances. In general, state governments used funds to provide health and welfare support and education aid. Large counties used ARFA funds for health and welfare funding and public safety, while smaller

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6. This discussion of the ARFA program is drawn from: Peat, Marwick, Mitchell, and Co., **An Analysis of the Antirecession Fiscal Assistance Program**, prepared for the U.S. Department of the Treasury, Office of Revenue Sharing, April 1978.

counties supported public works projects and general government. City governments concentrated their funds on public safety and public works projects.

An evaluation of the ARFA program estimated that about 20,000 public-sector jobs were created or retained in assisted jurisdictions during the first half of 1977 as a result of the federal funds, with about 26,000 more jobs generated during the first half of 1978, at an overall cost of $85,000 per job-year in 1978 dollars. An estimated 5,000 to 7,000 additional private-sector jobs were created in the first half of 1977 as a result of the increased state and local purchases, with anywhere from 29,000 to 40,000 more private-sector jobs created in the first half of 1978.

Policy Implications and Options

In providing unrestricted funds to state and local governments, the federal government depends on recipients both to use funds quickly and to finance activities that lead to increases in overall employment levels. The experience of the ARFA program suggests that it may be difficult for states and localities to respond swiftly and in ways that are employment-intensive, however. In the past, recipients of ARFA funds had difficulty in using increased funds quickly, at least in part because of their decision-making schedules and the time required to revise previously-made budget plans. On

the other hand, many state and local governments are currently experiencing significant budget constraints, due both to the cutbacks in federal grants and to the effects of the recession on revenues, suggesting that they would have an incentive to use additional funds quickly. Moreover, with unemployment levels expected to be high for some time, any slowness in responding might be a less important consideration this time.

Under this approach, state and local governments would have complete discretion in determining how to use additional funds, and their choices might or might not lead to large increases in employment. The federal government faces a tradeoff between ensuring that funds are spent in ways likely to lead to increased employment and allowing recipients discretion in allocating funds. The experience of the ARFA program suggests that when state and local governments are presented with unconstrained revenues they will use them in ways similar to their own revenues, rather than necessarily funding employment-intensive programs. Placing restrictions on the use of funds could affect the number of jobs created, but such restrictions would change the nature of the program.

If the Congress chose to fund fiscal assistance to states and localities as a means of stimulating employment, a number of program design decisions would have to be made. Among these would be when to start and

stop the program, how to determine eligibility and funding levels for recipients, and whether or not to constrain recipients in their use of funds.

COUNTERCYCLICAL HOUSING SUBSIDIES

Another, quite different, approach to expanding employment opportunities would be to generate additional economic activity in the private sector through subsidies for the construction or purchase of housing.

Past Experience

Countercyclical housing subsidies were provided during the last recession through the Emergency Mortgage Purchase Assistance program--commonly referred to as the Brooke-Cranston program. Under the Brooke-Cranston program, established in 1974, the federal government purchased privately written below-market interest rate residential mortgages at close to face value and subsequently resold them as market-yield instruments--absorbing the price difference as a financing subsidy.

Between October 1974 and September 1976, the government issued commitments to purchase about $7.8 billion of mortgages for one- to four-unit homes and $5 billion of loans on larger multifamily projects. By September 1979, approximately $6.4 billion in mortgages on one- to four-unit structures and $2.4 billion in multifamily loans had been purchased--

accounting for 190,000 units in one- to four-family homes and 117,000 units in larger buildings. The interest rates on the one- to four-unit mortgages provided subsidies of between one and two percentage points at an average cost to the government of approximately $2,200 per loan. The loans for multifamily structures carried slightly larger subsidies.

It is difficult to gauge the effect that these subsidies had on new construction--and thus on employment. An evaluation by the General Accounting Office estimated that the single-family mortgage assistance program resulted in between 2,000 and 63,000 net additional construction starts in the short run, offset, in part, by reductions in later years.7/ The "best estimates" of five housing analysts were that the program resulted in from 18,000 to 35,000 net additional construction starts in the short run. The net construction impact of the Brooke-Cranston program was reduced by the fact that it became available after mortgage interest rates had already begun to decline. No estimates are available of the net construction effect of the multifamily mortgage assistance program.

Policy Implications and Options

Experience under the Brooke-Cranston program suggests that the timing of any countercyclical housing construction subsidy program may be

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7. General Accounting Office, **What Was the Effect of the Emergency Housing Program on Single-Family Housing Construction?** (November 21, 1978).

crucial to its impact. If aid was made available when mortgage interest rates were inhibiting new home purchases and construction, the financing subsidies could induce some persons to buy or build homes earlier than they might otherwise have, thereby spurring more construction activity at that time. If, on the other hand, mortgage assistance became available after interest rates had already declined to broadly affordable levels, then a greater share of the assistance would probably go to persons who would have purchased or constructed homes in any event.

Where the housing industry is now in the construction cycle--and, thus, what the short-term impact of any new stimulus would be--is difficult to assess. On the one hand, construction remains at severely depressed levels by historical standards. As of October 1982, private new home construction starts were occurring at an annual rate of about 1.1 million units--more than 40 percent below the most recent cyclical peak in 1978, and more than 35 percent below the average for the entire decade of the 1970s. On the other hand, construction starts have increased by about 30 percent within the last year. Also, a recent rise in building permits suggests that a further upswing in starts may be at hand. Finally, the decline in mortgage interest rates that has occurred over the last few months makes new home purchases more affordable and will probably spur some additional housing activity, even without federal subsidies.

If the Congress chooses to fund a countercyclical mortgage subsidy program, at least two general approaches are available.8/ First, the Brooke-Cranston program could be reauthorized and funded. Second, the Congress could provide short-term mortgage-interest-reduction payments, rather than a one-time buydown of the interest rate.9/ Because the Brooke-Cranston program has operated in the past, it might be implemented somewhat more rapidly. Once implemented, it would require a shorter administrative involvement between the federal government and private mortgage lenders and servicers. On the other hand, because the Brooke-Cranston approach provides a permanent interest subsidy, it could require a greater federal expenditure than the limited-duration mortgage-interest-reduction-payment approach to provide the same reduction in monthly mortgage payments in the early years of the loans. The eventual cost of assistance under the Brooke-Cranston program, however, would depend on the level of interest rates when the reduced-interest mortgages purchased by the government were eventually resold.

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8. For a more complete discussion of countercyclical housing assistance options, see General Accounting Office, **Symposium on Countercyclical Stimulus Proposals for Single-Family Housing** (1982), and **Symposium on Countercyclical Stimulus Proposals for Multifamily Housing** (1982).

9. A program that would have funded short-term mortgage-interest-reduction payments was included in a supplemental 1982 appropriations act that was passed by the 97th Congress and vetoed by the President.

Other program-design decisions that would have to be made include: the mix between assistance for single-family and multifamily structures, whether assistance should be limited to newly built homes, the size of the subsidy to be provided, what households should be eligible to receive assistance, and how the program should be terminated, or "triggered off." Generally, subsidies for the purchase of single-family homes might be translated into additional construction starts more rapidly than would aid for multifamily structures, because less time might be required for project planning. Similarly, limiting the aid to yet-to-be-built homes would probably maximize the short-term construction impact.

The size of any single-family mortgage subsidy, in conjunction with the eligibility criteria for participating households, might be especially important in determining the immediate construction impact of any program, as well as its cost. Providing a very small subsidy while setting high income-eligibility limits for participating households would reduce the average federal expense per household assisted but would probably direct a greater proportion of the aid to persons more likely to have bought homes in any event. By contrast, providing a larger subsidy while setting eligibility limits somewhat lower would increase the average federal expense, but might also direct a greater proportion of the aid to persons less likely to have bought homes without assistance. In neither event, however, would limited mortgage-interest subsidies alone make new homes affordable to low-income persons.

A final issue concerns whether provision should be made for any new countercyclical housing subsidy program to be triggered off automatically. Specific options include terminating assistance in the event either that market mortgage interest rates fall below some predetermined level or that housing starts rise above some threshold.

COUNTERCYCLICAL WAGE SUBSIDIES

Still another approach to expanding job opportunities would be to provide wage subsidies to private-sector employers hiring additional workers. Such a subsidy--which could be provided either through a tax credit or a voucher--would be intended to stimulate broad-based employment gains by reducing the cost of employing additional workers.

Past Experience

The New Jobs Tax Credit (NJTC)--enacted in 1977 and effective for the 1977 and 1978 tax years--is an example of a countercyclical employment tax credit.10/ The NJTC provided businesses a nonrefundable tax credit to 50 percent of the first $4,200 of wages per employee for increases in

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10. As discussed in Section V, employment tax credits can also be designed to aid persons suffering from structural employment problems. The Targeted Jobs Tax Credit--enacted in 1978 as a replacement for the NJTC--is an example of such a program.

employment of more than 2 percent over the previous year. Since the employer's business deduction for wages was reduced by the amount of the credit, the net credit to the employer (and the net revenue loss to the government) was lower than the maximum nominal credit of $2,100 per employee.11/

One study estimated that more than 3.2 million employees (representing about one-half of total private employment growth) were claimed under the credit during the two years of its existence, for a net revenue loss of $4.1 billion. However, according to this study, 50 percent or more of the new employment claimed under the credit would have occurred anyway.12/ In fact, in one survey only 6 percent of the firms contacted reported that their employment decisions had been altered by the availability of the credit--although more than half had claimed a credit for employment growth. That survey reported that for the great majority of all firms the most important consideration in hiring decisions was the level of product demand, rather than the marginal cost of labor. Employers were extremely

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11. How much lower the net credit was relative to the nominal credit depended on the employer's tax rate.

12. See John Bishop, "Employment in Construction and Distribution Industries: The Impact of the New Jobs Tax Credit," Institute for Research on Poverty, Discussion Paper No. 601-80 (April 1980).

reluctant to increase hiring in response to the credit without confidence that the additional output produced could be sold for a profit.13/

Policy Implications and Options

An employment tax credit has both advantages and potential shortcomings as a countercyclical measure. On the one hand, a credit can be implemented quickly and made applicable only for hiring during specified time periods, with little additional administrative burden for the federal government apart from advertising the credit's availability. On the other hand, the potential for net job creation from a general employment tax credit is uncertain. Experience with the NJTC indicates that the credit was a windfall to employers for at least 50 percent and perhaps up to 95 percent of the employment claimed. This implies that the average net federal revenue loss per job created as a result of the credit could range from a low of $2,200 to about $17,100 annually.

Making a tax credit refundable might increase induced employment, because at the time employers made their hiring decisions they could be certain of benefiting from the credit regardless of the extent of their eventual tax liability. Refundability would, however, increase the government's revenue loss.

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13. See Robert Tannenwald, "Evidence Concerning the Effects of the New Jobs Tax Credit: Interviews and NFIB Survey," unpublished paper.

Another option would be to provide a wage subsidy by allowing the recipients of Extended Unemployment Insurance Benefits to transfer their entitlements to vouchers payable to their new employers.14/ The voucher could be redeemable on a portion of the worker's wage over several months of employment to insure that the new jobs were not short-term ones. Such a voucher system would be similar to a refundable employment tax credit in that it might generate additional employment by reducing overall labor costs to a firm. In contrast to a universally available tax credit though, some of the employment gain under a voucher could come at the expense either of other unemployed workers without vouchers or of present employees. A voucher program based on Extended Benefits would probably involve no net federal cost, because eligible workers have already been unemployed for 26 weeks or more, so the payments would almost certainly have to be made in the form of UI benefits were the vouchers not available.

UNEMPLOYMENT INSURANCE

Altering the Unemployment Insurance (UI) program is another means of aiding unemployed persons. Although some changes could be made that might increase employment prospects for the jobless--such as using UI benefits as a wage subsidy, as discussed earlier--the principal objective of UI is to replace a portion of lost earnings.

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14. The current Unemployment Insurance system is described briefly in the next section.

The Current Program

Currently, Unemployment Insurance is the major income support program for workers who have lost their jobs. A joint federal-state system, UI currently provides partial income replacement for up to between 32 weeks and nearly one year for unemployed persons who meet certain minimum previous-work-experience criteria and who can demonstrate that they are seeking employment. The benefits paid depend on a recipient's previous employment and on state laws. The present average weekly benefit is approximately $115.

There are currently three layers of UI covering progressively longer periods of unemployment. Regular UI is financed entirely by the states and is available for up to 26 weeks. Extended Benefits (EB)—financed equally by the federal and state governments—are available for up to an additional 13 weeks when unemployment in a state exceeds certain thresholds. The third layer of benefits is Federal Supplemental Compensation—authorized in October 1982 and available through March 1983. These benefits—which are financed entirely by general federal revenues—are available for up to six to ten weeks, depending on the state unemployment rate, and are paid even in states in which Extended Benefits are not available. In October 1982, approximately four million persons were receiving regular UI benefits; an additional 475,000 were receiving Extended Benefits; and about 800,000 were receiving Federal Supplemental Compensation.

Policy Options

Although UI is primarily an income support program, certain changes could be made that would provide additional flexibility in dealing with unemployment. Changes could be made that might help recipients to relocate or obtain training; spread the costs of joblessness among a larger number of workers; or provide extended support to a larger number of the unemployed. Because recent high joblessness has caused serious financial strains for the UI system, however, any increases in benefits not financed with additional revenues would only worsen that situation.

Using UI Funds to Promote Relocation or Training. One change in the UI system would be to allow Extended Benefit recipients to receive their entitlements as lump-sum payments that could be used either for relocation to an area with lower unemployment or for training. While UI benefits can now be transferred from one state to another if the recipient moves, after several weeks of unemployment a jobless worker may lack the funds necessary to relocate. The lump-sum cash benefit could provide these funds. Alternatively, the lump-sum payment could be used to pay for training. In either case, however, if the worker remained unemployed for some additional time, the lack of weekly UI benefits could cause severe hardships.

Sharing the Costs of Unemployment. A second approach would be for the federal government to encourage and work with states to implement so-called "work sharing" programs, such as those developed in Arizona, California, and Oregon. These plans allow certain employers to reduce staff hours across the board rather than laying some people off entirely, and then permit employees to draw pro-rated UI benefits for the lost hours. Under such a plan, instead of 10 percent of a firm's employees being laid off, for example, each employee's hours could be reduced by 10 percent, with each worker then receiving 10 percent of his or her full UI benefit. The Tax Equity and Fiscal Responsibility Act of 1982 directed the Department of Labor to develop model legislation for state work-sharing programs, and additional support could be provided to help states develop and enact such programs quickly.

This option would permit small income reductions for many workers rather than a complete loss of earned income for a few workers. Preliminary evidence indicates that this type of plan has beer successful in California. In order to extend the plan beyond Arizona, California, and Oregon, however, other states' laws that prohibit persons who work more than some minimum amount from receiving UI would have to be changed. Also, substantial labor-management cooperation would be required to make the plan work widely.

Extending the Duration of UI Benefits. With current high unemployment reducing the chances of jobless workers finding employment, the federal government could increase the duration of UI benefits to provide additional support to the long-term unemployed. This could be done in several ways, including: extending the March 31, 1983, termination date for the Federal Supplemental program; increasing the maximum duration of those benefits; or repealing some of the recent legislative changes affecting the availability of Extended Benefits. In each case, however, the additional benefits would have to be financed through higher taxes or a higher federal deficit, since the UI system is already facing financial difficulties.

Reauthorizing the Federal Supplemental Compensation program for six additional months through the end of fiscal year 1983 would cost approximately $2 billion and would provide additional benefits for nearly two million long-term unemployed workers. Increasing the maximum duration of Federal Supplemental Compensation to 8-15 weeks, instead, would increase UI outlays by $700 million. Reducing to their pre-1982 levels the unemployment thresholds above which states may provide Extended Benefits would add about $800 million to UI outlays if implemented for all of fiscal year 1983, and would provide additional benefits to about one million persons.

V. OPTIONS FOR ADDRESSING STRUCTURAL EMPLOYMENT PROBLEMS

Even after the economy has recovered from the present recession, two groups will likely continue to experience labor market problems: disadvantaged persons and dislocated workers. Disadvantaged persons include low-income individuals with little recent work experience and those who have worked previously but with chronically low earnings. Dislocated workers consist of skilled persons who had previously worked but who have been displaced by structural economic changes.

The primary goal of policies to assist the structurally unemployed is to increase their long-term employability, rather than merely to expand immediate job opportunities. However, without broad economic recovery, targeted assistance designed to increase the employability of these groups would have little effect on their job prospects.

Several federal policy tools to aid these persons are now in place. Consequently, the principal question in addressing structural unemployment is more one of how available discretion in present programs might be exercised and what changes might be made in those programs, rather than what new forms of assistance are needed.

The Job Training Partnership Act (JTPA)--which was enacted in October 1982 as a replacement for the expiring Comprehensive Employment and Training Act (CETA)--provides for state- and locally-administered training, job-search assistance, and related activities for both disadvantaged and dislocated workers. The JTPA also authorizes federally-administered aid to selected groups, including the Job Corps program for disadvantaged youth. During fiscal year 1983, training programs will begin shifting from CETA to the JTPA, which becomes fully operational in 1984. In addition to JTPA, the Targeted Jobs Tax Credit (TJTC)--which is now in place and fully operational--provides wage subsidies to employers hiring members of seven groups of disadvantaged youth and adults.

AIDING DISADVANTAGED PERSONS

Low-income persons who have never worked or have not worked for a long time, and persons who have been employed but with chronically low earnings, may suffer long-term employment problems. This group--referred to here as disadvantaged persons--is quite large. In fiscal year 1980, for example, at least 16 million persons were eligible for CETA comprehensive training programs--a group that included members of families receiving public assistance and other low-income persons. Of that total, about 35 percent were young persons between the ages of 14 and 21.

In the past, disadvantaged persons have been assisted both through training and job search assistance efforts and through targeted wage subsidies.

Training Programs and Job Search Assistance

Since 1974, the CETA program has provided classroom training, on-the-job training, and work experience to disadvantaged adults and youth, while also offering them such job-related services as counseling, education, and placement activities. In 1982, the federal government provided $4.4 billion through training and job-search programs to assist about two million disadvantaged persons. 1/

Past Experience. A joint CBO-National Commission for Employment Policy study indicates that, for adults, CETA training programs appreciably increased the average earnings of women--principally by increasing their labor force participation and hours worked--but did not seem to increase the average earnings of men, who had stronger initial labor force attachments but were likely to have chronically low earnings. 2/ Similar results were

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1. Funding figure includes CETA employment and training programs and the Work Incentive program. Placement services provided through the Employment Service are not included.

2. See CBO and NCEP, **CETA Training Programs--Do They Work for Adults?** (July 1982).

found for CETA training provided in a classroom setting, on-the-job, or through subsidized work experience. All these programs increased women's average annual earnings by between $800 and $1,300, at a federal cost of about $2,400 per participant, in 1980 dollars.

Training programs for youth can also be effective at increasing employability under certain circumstances. On the one hand, most CETA programs for youth--which are administered by local governments or non-profit organizations and provide primarily work experience--do not appear to increase employability appreciably. On the other hand, the federally-administered Job Corps program--which provides an intensive program of remedial education and vocational training at a much higher average annual federal cost--apparently is effective at enhancing the long-term employment prospects for some youth. 3/ No nationwide evidence is available on the effectiveness for youth of locally-administered CETA classroom or on-the-job training programs, which are generally less intensive than Job Corps programs.

For those among the disadvantaged population who are job-ready--that is, who have entry-level skills--job search assistance alone might be beneficial. Such assistance can take the form of job referrals--locating

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3. Congressional Budget Office, **Improving Youth Employment Prospects: Issues and Options** (February 1982).

and developing job openings and matching job seekers with openings; or job search instruction, which involves teaching people how to look for jobs on their own.

Available evidence suggests that job search instruction can be an effective addition to referral services, by enabling jobseekers to be more active and effective participants in the placement process. Job search instruction programs have resulted in significantly higher placement rates for disadvantaged workers, including welfare mothers and low-income youth, compared to similar workers who did not receive instruction. The gains from job search instruction programs are due primarily to reductions in the time jobseekers take to find a job, however, rather than increases in the probability of ultimately finding a job. Over the long term, the employment rate among groups who receive job search instruction may not be very different from the employment rate among similar groups of persons who do not receive job search instruction. 4/

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4. See Elise Bruml and John Cheston, "Placement Assistance in the ES, WIN and CETA" (paper funded in part from U.S. Department of Labor, March 1982), and Elise Bruml, "Self-Directed Group Job Search: The Results" (unpublished paper, U.S. Department of Labor, July 13, 1981).

Policy Implications and Options. Evidence from past programs suggests that different approaches might be used in aiding different groups of disadvantaged persons.

For adults with little previous work experience, it appears that the sort of training provided through CETA--short-term, entry-level training--can increase future earnings, principally by increasing hours worked. What is less clear is whether job search assistance alone--which could be provided at a much lower cost--would be just as effective. If the effect of training programs is primarily to facilitate entry or reentry into the labor market, job search assistance alone might be as helpful. If, on the other hand, training is essential to that entry or reentry process, job search assistance alone would not achieve as good results as past training programs.

For adults with more extensive previous work histories but with chronically low earnings, findings from the CETA evaluation suggest that more extensive, and thus more expensive, training would probably be required to increase their future wages. In other words, in order to keep expenditures constant, resources might have to be concentrated on fewer people. While the potential benefit of more extensive training is uncertain, results from a CETA demonstration project--the Skill Training Improvement

Program--suggest that training for more highly skilled jobs might yield positive results, but at an appreciably higher cost. 5/

Finally, for disadvantaged youth, the problem appears to be a lack of previous work experience and--for many--a lack of marketable skills as well. For those youth who possess at least minimal marketable skills, job search assistance alone may be sufficient to ease the transition to the world of work. For the least prepared youth, however, remedial education coupled with vocational training would be necessary.

Most of the above services are currently provided under CETA could be provided under the new JTPA. Title II of JTPA can finance state and local training programs for disadvantaged adults and youth, with increased private-sector involvement. Title IV of JTPA provides for federally-administered aid for selected groups, including continuing the Job Corps program for youth. JTPA differs somewhat from current CETA programs by requiring that those welfare recipients who must register for employment and training services be served in proportion to their share of the eligible population. The new act also limits the use of work experience programs and restricts the payment of allowances to trainees. The effects of these

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5. See Abt Associates, Inc., **STIP: CETA and the Private Sector** (prepared for U.S. Department of Labor, September 1979).

changes on future training programs will depend largely on state and local decision making. The number of persons served will depend both on program-design decisions and on the level of federal funding.

Targeted Wage Subsidies

Providing targeted wage subsidies through tax credits for employers who hire disadvantaged persons is another approach to expanding their employment opportunities. Such tax credits are designed to increase the demand for selected workers by reducing their costs to employers, rather than increasing their job skills or facilitating the job-search process. Because tax credits do not improve workers' skills, their success depends on the workers being at least minimally attractive to employers, however.

Past Experience. Employment tax credits are now available for some disadvantaged groups through the Targeted Jobs Tax Credit (TJTC). The TJTC--enacted in 1978--provides a 50 percent credit for the first $6,000 of wages paid to target group employees in their first year of employment, and a 25 percent credit for the first $6,000 of wages paid in their second year. Since the credit reduces the business deduction for wages paid, however, the maximum net credit is $2,580 in the first year and $1,290 in the second year of employment. The groups currently eligible for the TJTC include economically disadvantaged youth (aged 18-24); economically disadvantaged

cooperative education students (aged 16-19); persons referred from vocational rehabilitation programs; economically disadvantaged Vietnam veterans; economically disadvantaged ex-convicts; public assistance recipients; and employees who were involuntarily terminated from CETA jobs. In addition, a credit of 85 percent of the first $3,000 in wages paid to economically disadvantaged youth (aged 16-17) for summer employment will be available beginning in May 1983.

In fiscal year 1981, more than 400,000 employees were certified under the TJTC. About half of those certified in 1981 were cooperative education students who are no longer eligible for the credit unless they are economically disadvantaged. Of the remaining employees claimed under the credit--mostly disadvantaged youth--about two-thirds were certified retroactively, that is, after they had already been hired. This practice is no longer permitted. Less than 5 percent of the eligible disadvantaged youth hired in 1981 were claimed under the TJTC.

It is estimated that, before the elimination of retroactive certification, only about 18 percent of the employees claimed under the TJTC (excluding cooperative education students) represented new job demand for targeted groups; the remaining claims represented windfall gains for the employers. Without retroactive certification, the poter ial for windfall

gains from the credit is probably reduced, but this may also further reduce the already low rate of use by employers. 6/ Further, any new job demand for targeted groups may come at the expense of ineligible workers, since the reduction in overall labor costs resulting from the TJTC is probably too small to have any appreciable effect on total employment demand.

Policy Implications and Options. Employment tax credits have both advantages and drawbacks as devices for aiding disadvantaged persons. On the one hand, tax credits are fairly easy to administer and, unlike appropriated training and job-search programs, are available to all members of selected groups. On the other hand, evidence from the TJTC suggests that a substantial proportion of the employees claimed under the credit would have been hired in the absence of the subsidy. Also, because tax credits are generally entitlements, the eventual cost to the federal government cannot be known in advance--nor can the cost be controlled without further changes to the authorizing legislation once the target groups have been identified.

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6. If only 18 percent of hiring under the TJTC resulted in new job demand for targeted groups, it is estimated that the average cost (in terms of federal revenue losses) of creating a full-year full-time job was about $10,800. If the proportion of employees claimed that represents new job demand has increased, say to 36 percent, as the result of the elimination of retroactive certification, the average federal cost per job slot has fallen to $5,400. See CBO, **Improving Youth Employment Prospects: Issues and Options** (February 1982).

Several changes could be made in the TJTC that might increase its use--and, thus, net job creation--but all the changes would increase the revenue loss to the federal government as well. The federal government could, for example, make the tax credit refundable, so that even employers who expect to have no tax liability for the year would benefit from it. In addition, the size of the credit could be increased. The effect of such changes on the total demand for labor is uncertain.

Another approach would be to increase the value of the tax credit to employers on the condition that they help finance training for disadvantaged workers. Such a credit might have to be quite large--and therefore costly--to provide a sufficient incentive for employers to participate. To the extent that employers did participate, however, such a program might help enhance the long-term employability of disadvantaged persons, rather than only marginally increasing their immediate job prospects.

AIDING DISLOCATED WORKERS

Dislocated workers--those who have been displaced by structural changes in the economy and are unlikely to return to their former jobs--constitute another group of structurally unemployed persons. For these workers, the problem is a reduction in the demand for their skills, rather than a lack of previous labor force attachment.

The Sources and Magnitude of Dislocation

Disparities in growth rates among major sectors of the economy and the modernization of production through labor-saving technology will both contribute to worker dislocation in the 1980s. Industries such as automobiles, steel, rubber, textiles, and wearing apparel--which together employed one-third of all manufacturing workers in 1979--have grown slowly or actually declined in recent years and are expected to continue to lag through this decade. Modernization of basic manufacturing industries, mainly through technology that requires a reduced labor input, will further contribute to displacement. Although such modernization could improve the competitive position of these industries and ultimately lead to some additional employment opportunities, displacement is still likely to occur because the new plant and equipment will require less labor for production. Some analysts, for example, have estimated that automation could eliminate 200,000 jobs in the automobile industry by 1985. In addition, recent studies estimate that microelectronic technology--robots, in particular--could replace 3 million to 7 million manufacturing jobs by the year 2000.

According to most studies of plant shutdowns and automation, dislocated workers tend to be older blue-collar workers with substantial job experience and less formal education. A number of factors make adjustment difficult for many of these workers. Much of their earnings and

benefits are attributable to firm-specific skills and seniority that are not readily transferrable to other jobs. These workers also tend to have been insulated from the labor market and to know little about job openings, skills in demand, and institutions to aid unemployed workers. These factors often lead to difficulty in accepting their new circumstances and to unrealistic aspirations for new jobs. Moreover, job search skills often erode with time on the job--particularly for blue-collar workers who usually do not search for work while employed. Finally, many financial and nonfinanciai factors inhibit these workers from relocating to geographic areas where jobs exist.

The number of workers likely to be dislocated in the near future depends on the definition of dislocation used and on future economic conditions. CBO has estimated the likely number of dislocated workers in January 1983 under a variety of definitions related to dislocation--age, job tenure, industry, occupation, and length of unemployment--and different assumptions regarding economic trends. Applying several definitions, the number of dislocated workes in 1983 could range from 185,000 to 2.2 million--or from nearly 2 percent to 20 percent of all unemployed workers (see Table 2).

TABLE 2. ESTIMATED NUMBER OF DISLOCATED WORKERS IN JANUARY 1983 UNDER ALTERNATIVE ELIGIBILITY STANDARDS AND ECONOMIC ASSUMPTIONS (In thousands)

Eligibility Criteria	Number of Workers a/
SINGLE CRITERIA	
Declining Industry	1,240 - 1,590
Declining Occupation	1,700 - 2,200
Ten Years or More of Job Tenure	840 - 1,200
More than 45 Years of Age	1,120 - 1,370
More than 26 Weeks of Unemployment	840 - 1,200
MULTIPLE CRITERIA	
Declining Industry and:	
Ten years' job tenure	270 - 330
45 or more years of age	270 - 340
26 weeks of unemployment	185 - 240
Declining Occupation and:	
Ten years' job tenure	300 - 390
45 or more years of age	390 - 520
26 weeks of unemployment	310 - 490
Mass Layoff and Plant Closing	1,090 - 1,400

SOURCES: Congressional Budget Office estimates based on tabulations from the March 1982 Current Population Survey.

a. The range reflects a variety of assumptions related to general economic conditions and to patterns of growth among different sectors of the economy.

Options for Assisting Dislocated Workers

Three general approaches are available for aiding dislocated workers--providing services directly to the workers to help them find new employment; subsidizing their wages to encourage employers to hire and, if necessary, retrain them; and providing additional income to support them while they adjust to their new circumstances.

Adjustment Services. Several different services might be provided to aid dislocated workers in finding jobs. Job search assistance--including labor market information, job-search training, and counseling--might help dislocated workers accept their new circumstances and find new employment. For some workers, training could help them acquire new skills that are in demand. Finally, relocation assistance--in the form of subsidized expenses and inter-area labor market information--might encourage workers to relocate to geographic areas in which there are job openings.

Information on the success of adjustment services is limited. Preliminary evidence suggests that job search assistance alone may shorten unemployment, on average, by between two and three weeks--resulting in Unemployment Insurance savings that more than offset the average cost of less than $100 for search assistance. 7/ Although the effect of retraining is

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7. See CBO, **Dislocated Workers: Issues and Federal Options** (July 1982).

unknown, recent studies of plant closings suggest that it will only be successful when it is customized for existing job openings that are identified beforehand. 8/ Finally, a U.S. Department of Labor demonstration project found that local employment offices that provided a combination of job search grants, financial assistance, and inter-area job information were successful at encouraging members of such typically less mobile groups as blue collar workers with less than a high school education to relocate for employment. 9/

Most of these services are now authorized to begin in October 1983 under Title III of the Job Training Partnership Act, although no funds have yet been appropriated. Under that title, states--with the assistance of Private Industry Councils, if the state chooses to use them--will identify groups of dislocated workers and determine what, if any, job opportunities exist for which the individuals could be trained. Funds provided to states may be used to provide job search assistance (including job clubs), job development, training, pre-layoff assistance, relocation assistance, and early joint employer-labor intervention in the event of a plant closing. In order to qualify for assistance under Title III, states must expend an amount

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8. U.S. Department of Labor, **Plant Closings: What Can Be Learned from Best Practice** (November 1982).

9. See Westat, Inc., **Job Search and Relocation Assistance Pilot Project (JSRA): Final Report**, prepared by the Office of Policy, Evaluation, and Research, Employment and Training Administration, U.S. Department of Labor (August 1981).

of their own resources equal to the federal funds made available. The nonfederal matching funds can include the direct cost of employment and training services provided by the state and local governments and private institutions. Funds spent on unemployment insurance for eligible individuals who are in a training program may be credited for up to 50 percent of the states' required expenditure.

The number of people who could be served under Title III will depend on the level of appropriations and on the mix of services provided locally. The CBO estimates that job search assistance would cost approximately $90 per worker for traditional methods and $500 per worker for job clubs. Relocation assistance is estimated to cost an average of $1,200 per family, with retraining requiring $2,500 per person. Assuming that all workers receive job search assistance, 5 percent receive relocation aid, and 50 percent receive training (based on the experiences of recent pilot projects), assistance under Title III of the JTPA would cost an average of approximately $2,000 per eligible worker, including administrative costs. If half of that amount were paid from state matching funds, 100,000 workers could be aided per $100 million in federal funds.

One specific option being considered by the Congress is to provide immediate appropriations for the dislocated worker program under Title III.

Such funding would allow the program to be implemented in fiscal year 1983 rather than delayed until 1984. Although accelerating program implementation might not secure employment for many dislocated workers in the short run because of the limited availability of jobs, early implementation might result in a somewhat quicker reduction in unemployment as the recovery begins, since dislocated workers could be ready to fill jobs as they became available.

To use whatever funds are provided most effectively, states might offer different services to different dislocated workers. One approach would be to sequence the services. Job search assistance--the least costly--could be provided to all program participants. Those still without new jobs could then be offered relocation aid. Finally, training--the mostly costly service--might be provided to those workers whose present skills are not in demand either where they now live or in other labor markets.

Wage Subsidies. A second general approach to aiding dislocated workers would be to subsidize their wages--perhaps through targeted employment tax credits. This approach would reduce employers' net costs for hiring dislocated workers, thereby presumably encouraging some employers to hire them even if their existing job skills did not precisely match their new employers' immediate needs.

If the Congress did choose to enact a tax credit for dislocated workers, it could do so fairly easily by amending the TJTC to include dislocated workers among the eligible groups, but the newly eligible group would have to be defined specifically in the statute. Once in place, such a credit would also be easy to administer and might lead some employers to retrain dislocated workers after they were hired. On the other hand, experience under the TJTC suggests that limited wage subsidies might do little to affect employers' hiring decisions if the prospective workers were not already attractive job candidates. To the extent that a tax credit targeted on dislocated workers was used to subsidize the wages of people who would have been hired in any event, it would merely represent a windfall to employers without generating new employment. Unless they were restricted from doing so, firms might even use such a credit to hire new employees rather than rehiring previous employees laid off during the recession.

Additional Income Replacement. A third approach to aiding dislocated workers would be simply to provide them with additional income support--beyond what is now available through Unemployment Insurance. Such an approach would provide greater support during readjustment but would do nothing to enhance workers' marketability for new employment. Indeed, extended income replacement might actually cause some workers to postpone the readjustment process.

One specific option that has been proposed would be to provide dislocated workers with federally financed supplemental UI benefits of perhaps 10 additional weeks. If this approach was adopted, receipt of the supplemental benefits might be made conditional on workers also accepting job search assistance, relocation aid, or retraining to ease their transition to new employment.